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Contracts Enlarging a Copyright Owner's Rights: A Framework for Determining Unenforceability

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Contracts Enlarging a Copyright Owner's Rights: A Framework for Determining Unenforceability

TABLE OF CONTENTS

I. Introduction	816
II. Approaches to Findings of Unenforceability	819
A. Federal Preemption Analysis	819
1. Preemption Under Section 301	819
2. Preemption Outside of Section 301	821
B. A Public Policy Approach	822
III. Unenforceability of Contracts Under Copyright Law	824
A. Purposes and Policies of Copyright Law	824
B. Preemption and Unenforceable Per Se Provisions	826
1. Express Limitations on Contracts	827
2. Policy Regarding Works Made for Hire	827
3. Policy Against Extension of Copyright Duration ..	828
4. Policy Against Maintenance of Invalid Copyrights	829
5. Policy Favoring a Unified System of Protection ...	830
C. Unenforceability of Other Contractual Extensions of Rights	831
1. Contracts Attempting to Restrict "Fair Use"	831
2. Shrink-Wrap Licenses and Computer Software ...	832
IV. Conclusion	834

I. INTRODUCTION

A system of copyright law exists because of a belief that for intellectual property, the free market system cannot be relied upon to secure the interests of both author and society.¹ Therefore, society grants some form of limited monopoly rights to authors in order to

* This Comment received first place in the Nebraska division of the 1989 Nathan Burkan Memorial Competition, sponsored by the American Society of Composers, Authors and Publishers.

1. See, e.g., Goldstein, *Preempted State Doctrines, Involuntary Transfers and Compulsory Licenses: Testing the Limits of Copyright*, 24 UCLA L. REV. 1107 (1977).

obtain the correct balance of benefits for both. The copyright scheme attempts to balance the author's interest in remuneration for creative effort with the public interest in broad access to and availability of intellectual and artistic creation by imposing an artificially created market on all participants. Within this legal monopoly, contracts are seen as a means of facilitating the goals of copyright. Contracts, through the licensing of copyrighted works, allow authors to receive economic gain at privately negotiated prices.² Contracts therefore promote public access to intellectual property through arrangements for its manufacture, distribution, performance, or display.³ Thus, the copyright system views freedom of contract as beneficial to the purposes and goals of the copyright market itself.

It is generally believed that contract rights have not been restricted nor impaired by federal copyright law.⁴ The legislative history of the Copyright Act of 1976⁵ ("Act") generally fosters this view: "Nothing in this bill derogates from the rights of the parties to contract with each other and to sue for breaches of contract . . ."⁶ Yet, some contracts may impose such strong restrictions on the user of copyrighted materials that their validity under the Act must be questioned. For example, imagine a newsletter available only by subscription that includes as one of the provisions of its subscription agreement: "Under no circumstances is photocopying of this newsletter allowed. Violators will be prosecuted." Or imagine a book publisher who, as part of the mail order agreement for one or more books, includes the terms:

All rights reserved. No part of this book may be reproduced, stored in a retrieval system, or transcribed, in any form or by any means—electronic, mechanical, photocopying, recording, or otherwise—without the prior written permission of the publisher.⁷

Finally, consider the following terms used as part of a software licensing agreement in a so-called "shrink-wrap license"⁸:

1. TITLE AND LICENSE GRANT

The SOFTWARE is copyrighted and/or contains proprietary information protected by law. All SOFTWARE will remain the sole property of

2. *Id.* at 1128, 1135.

3. The exclusive rights granted to owners of copyright are the rights to reproduce, distribute, perform publicly, display the work, and to prepare derivative works. 17 U.S.C. § 106 (1982).

4. See, e.g., Brown, *Unification: A Cheerful Requiem for Common Law Copyright*, 24 UCLA L. REV. 1070, 1102-03 (1977).

5. 17 U.S.C. § 101 (1982).

6. H.R. REP. NO. 1476, 94th Cong., 2d Sess. 132 (1976) [hereinafter HOUSE REPORT].

7. Wadsworth, Inc., uses this restrictive notice on the copyright notice page of some of its books. E.g., J. TANUR, F. MOSTELLER, W. KRUSKAL, E. LEHMANN, R. LINK, R. PIETERS & G. RISING, *STATISTICS, A GUIDE TO THE UNKNOWN* (3d ed. 1989). See Fischer, *Reserving All Rights Beyond Copyright: Nonstatutory Restrictive Notices*, 34 J. COPYRIGHT SOC'Y 249 (1987), for a discussion of the efficacy of such notices.

8. See *infra*, notes 101-15 and accompanying text.

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B. The SOFTWARE,

1. together with any archive copy thereof, shall be either returned to AT&T-IS or destroyed when no longer used with the host processor for which it was initially furnished, or when the license to use is terminated; and
2. shall not be removed from a country in which use is licensed.⁹

These contract provisions¹⁰ attempt to enlarge the set of rights granted the copyright owner under the federal statutory scheme¹¹ by limiting the use or dissemination of the copyrighted work. In the extreme case, complete contractual freedom could allow copyright owners to define their own private systems of copyright protection in lieu of the protection afforded by the Act. There would therefore appear to be a need for courts to refuse enforcement of contracts or contractual provisions that attempt to expand protection for copyrightable works beyond the limits set by federal copyright law.

This Comment provides a framework for evaluating the enforce-

9. AT&T-IS Limited Use Software License Agreement (AT&T Information Systems, Inc., 1985).

10. These examples, the first two hypothetical, involve contracts that should meet the usual requirements for contract formation; i.e., the restrictive terms were part of a writing, known to the purchaser prior to sale, and the purchaser would be providing clear assent to them or would, by signature, indicate his or her willingness to include them as part of the offer to the publisher. *See generally* E. FARNSWORTH, *CONTRACTS* §§ 3.1-3.15 (1982). Assuming that in each example a contract exists, that contract may be considered a contract of adhesion. An adhesion contract can be fully enforced under the contract law of most states unless it contains one of two limitations—it contains a provision that is not reasonably expected by the nondrafting party, or it is unconscionable or unduly oppressive. *Cubic Corp. v. Marty*, 1 U.S.P.Q.2d (BNA) 1709, 1712-13 (1986). The provisions described here would arguably not render the adhesion contracts unenforceable.

11. 17 U.S.C. §§ 106-18 (1982).

ability of contracts under the Copyright Act. First, two major approaches for finding contract terms to be unenforceable are presented. Federal preemption is evaluated as one means of invalidating contract terms that would otherwise be enforceable under state contract law. A "public policy" approach is suggested as an additional method for finding contract provisions to be unenforceable. Then, by using analogy with patent law where possible, the enforceability of certain contract provisions that extend or enlarge the rights given to the copyright owner by the Act are discussed.

II. APPROACHES TO FINDINGS OF UNENFORCEABILITY

A. Federal Preemption Analysis

One method of imposing limitations on the freedom to contract under federal copyright law would be to find certain contractual rights to be preempted by the Act. In other words, the contractual rights granted by state law would be preempted by federal copyright law if the rights clashed sufficiently with the system of federal protection.¹² Preemption of contract rights under federal copyright law could be either expressly mandated by section 301¹³ or implicitly required by the purposes and objectives of the Act.¹⁴

1. Preemption Under Section 301

In section 301 of the Act, Congress intended to provide clear guidelines for a uniform preemption analysis so as "to avoid the development of any vague borderline areas between State and Federal protection."¹⁵ The provision sets out a two-prong test for determining which state rights are preempted. First, the rights created by state law must be "equivalent" to the exclusive rights granted the copyright owner under section 106.¹⁶ Second, the rights created by state law must apply to works of authorship "within the subject matter of copyright."¹⁷ If both prongs of the test are satisfied, then the state right is preempted by the federal copyright statute.

Although both prongs of the test have provided interpretive problems for the courts and commentators, most of the difficulty has surrounded the interpretation of what rights are "equivalent" to the

12. This standard was articulated in *Sears, Roebuck & Co. v. Stiffel*, 376 U.S. 225, 231 (1964).

13. 17 U.S.C. § 301 (1982) is the section of the Act explicitly dealing with the federal preemption of state law.

14. Preemption is "compelled whether Congress' command is explicitly stated in the statute's language or implicitly contained in its structure and purpose." *Jones v. Rath Packing Co.*, 430 U.S. 519, 525 (1977).

15. HOUSE REPORT, *supra* note 6, at 129.

16. 17 U.S.C. § 301(a) (1982).

17. *Id.*

exclusive rights granted by the Act.¹⁸ The statute itself does not define "equivalent" rights, thus leaving the courts to develop their own definitions. Several definitions have been fashioned,¹⁹ and unfortunately, the definition of "equivalent" rights has often been dispositive of the preemption issue.²⁰ Not surprisingly, breach of contract claims, and by implication the contractual rights supporting those claims, have not been preempted.²¹ The general belief that contract claims necessarily survive the Act has undoubtedly influenced the definition of what rights are "equivalent," and therefore the section 301 test for preemption may not have properly revealed whether contract rights in fact conflict with federal copyright protection.

Additionally, preemption analysis under section 301 may not be broad enough in scope to be useful in determining whether contract rights should be preempted. First, by its own terms section 301 applies only to the exclusive rights to reproduce, distribute, perform publicly, display, and prepare derivative works from the work,²² and not to all rights granted through the Act.²³ Second, the primary usefulness of section 301 would seem to be in eliminating duplicative systems of protection for intellectual property, as determined by the nature of "equivalent" rights.²⁴ Thus, section 301 helps to meet the need for a uniform system of copyright protection. However, since it is difficult to incorporate broader purposes and objectives of copyright law into the definition of "equivalent" rights, section 301 may fail to appropriately consider all of the goals and purposes encompassed within the copyright system. A preemption analysis outside of section 301²⁵—one that determines whether the state law "stands as an obstacle to the accomplishment and execution of the full purposes and objectives of

18. See, e.g., 1 M. NIMMER, NIMMER ON COPYRIGHT § 1.01 (rev. ed. 1987); Goldstein, *supra* note 1, at 1113.

19. M. NIMMER, *supra* note 18.

20. E.g., *Smith v. Weinstein*, 578 F. Supp. 1297 (S.D.N.Y. 1984), *aff'd per curiam*, 738 F.2d 419 (2d Cir. 1984). Here, by finding contract rights not equivalent to rights granted under copyright, the court was able to avoid the difficult question of whether ideas are within the subject matter of copyright under section 301.

21. E.g., *Acorn Structures, Inc. v. Swantz*, 657 F. Supp. 70 (W.D. Va. 1987), *rev'd*, 1988 Copyright L. Dec. (CCH) ¶ 26,251 (4th Cir. 1988).

22. 17 U.S.C. § 106 (1982).

23. Section 301(a) refers to "all legal or equitable rights that are equivalent to any of the exclusive rights within the general scope of copyright as specified by section 106." 17 U.S.C. § 301(a) (1982).

24. HOUSE REPORT, *supra* note 6, at 129 suggests that the primary purpose of section 301 was to eliminate common-law copyright protection.

25. That preemption analysis outside of section 301 must exist is indicated by the fact that section 301 does not cover state law derogation of exclusive rights granted under section 106. This point is discussed in the context of anti-blind bidding statutes in *Abrams, Copyright, Misappropriation, and Preemption: Constitutional and Statutory Limits of State Law Protection*, 1983 SUP. CT. REV. 509.

Congress"²⁶—may be needed to illuminate which state-created contract rights conflict with the nature of protection offered by the Act.

2. Preemption Outside of Section 301

Beginning with *Sears, Roebuck & Co. v. Stiffel Co.*²⁷ and *Compco Corp. v. Day-Brite Lighting, Inc.*,²⁸ the United States Supreme Court has indicated that state regulation of intellectual property is preempted when it clashes with federal patent or copyright law's balance between the public right and monopoly rights granted the inventor or author. The patent and copyright clause of the United States Constitution²⁹ does not, by its own force, prevent the states from protecting intellectual creation. Rather, the states retain concurrent power to protect intellectual creation with which Congress has not dealt.³⁰ The preemption issue is therefore one of conflict between federal and state systems of protection.

A paradigm for determining whether sufficient conflict exists for preemption to occur was presented to the United States Supreme Court in *Kewanee Oil Co. v. Bicron Corp.*³¹ The Court tested whether federal patent law preempted state trade secret law by comparing the economic objectives and effects of both systems of protection. Three major purposes of patent law emerged: to foster and reward invention, to promote disclosure of and access to inventions, and to assure that ideas in the public domain remain there.³² State trade secret protection was viewed as encouraging invention through the promotion of standards of ethics in commercial dealings.³³ Since both systems provided incentives for invention, they were harmonious in that regard. At the same time, there was no real conflict between the two systems since trade secret protection removed nothing from the public domain and since it promoted limited disclosure of ideas without causing "a substantial risk that holders of patentable inventions would not seek patents, but rather would rely on state protection."³⁴ Thus, the Court held that state trade secret laws were not preempted by federal patent law.

Although the Court's definition of trade secret law relied on the *Restatement of Torts*,³⁵ trade secret protection usually encompasses

26. *Hines v. Davidowitz*, 312 U.S. 52, 67 (1941).

27. 376 U.S. 225 (1964).

28. 376 U.S. 234 (1964).

29. U.S. CONST. art 1, § 8.

30. *Goldstein v. California*, 412 U.S. 546 (1973).

31. 416 U.S. 470 (1974). This paradigm was recently applied in *Bonito Boats v. Thunder Craft Boats*, 109 S. Ct. 971 (1989), to preempt Florida's "plug-mold" statute.

32. *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 480-81 (1974).

33. *Id.* at 481.

34. *Id.* at 489.

35. *Id.* at 474.

contracts requiring employees not to disclose trade secrets or confidential information, and contract provisions requiring employees not to compete.³⁶ If covered by *Kewanee*, such contract rights would not be preempted. Contracts arising under trade secret protection had previously been discussed in *Painton & Co. v. Bourns, Inc.*,³⁷ in which the Court of Appeals for the Second Circuit noted that trade secret contracts did not conflict with the major purposes of patent law, nor did they provide an alternative system of protection capable of supplanting the federal system. All others besides the contracting party were free to use the secret if they could properly uncover it.³⁸

With *Kewanee* the Supreme Court set out a case-by-case approach to determine whether, under the particular facts of the case, the state system of protection facilitates or hinders the purposes and objectives of the federal law. Nonetheless, preemption is *required* whenever the state and federal systems of protection are in actual conflict so that both cannot stand. Preemption of contractual provisions implies that emanations from federal law require that those provisions not be enforced, regardless of the state's interest in enforcing them. In other words, the major purposes or policies embodied in the federal law may be so clearly and precisely indicated that they override any interest in enforcing the contractual provisions. Preemption of contractual rights is therefore a severe holding for a court to make, but it is required when actual conflict exists.

B. A Public Policy Approach

Courts have developed public policy justifications for refusing to enforce contract provisions in a variety of contexts,³⁹ and such an approach could be used in conjunction with the Copyright Act. Contract provisions restricting use of copyrighted works could thus be found to be unenforceable on the grounds that they violate one or more policies inherent in federal copyright law. An overview of the public policy approach as a general limitation on freedom of contract helps to suggest how this approach could be used for policies derivable from copyright law.

In finding contract provisions to be enforceable, courts indicate that there is no reason to set aside the bargained-for expectations of the parties; on balance, it is in the best interest of all of society to promote certainty in contracts and to allow contracting parties to form their own agreements.⁴⁰ There is a strong sense, then, that allowing

36. See Goldstein, *The Competitive Mandate: From Sears to Lear*, 59 CALIF. L. REV. 873, 902 (1971).

37. 442 F.2d 216 (2d Cir. 1971).

38. *Id.*

39. E. FARNSWORTH, *supra* note 10, § 5.2.

40. *Id.* at § 5.1.

parties to enter freely into contractual transactions is in and of itself a public good.

Competing, alternative views of the public good have led to exceptions to the freedom to contract, because the public interest in freedom of contract can be outweighed by some other societal interest. Furthermore, that latter interest might be furthered by a court's refusal to permit the contract to be enforced.⁴¹ Courts do not lightly refuse to enforce contracts, however. There is a general reluctance to withhold enforcement on grounds of public policy, even if that public policy is derived from legislation.⁴² A statute that expressly prohibits making certain types of agreements mandates a judicial finding that an agreement of that type is unenforceable.⁴³ Such agreements would therefore be found to be unenforceable per se, because the contractual provisions violate such a clear policy in the statute that they cannot be enforceable regardless of the interest in the enforcement.⁴⁴ Even in the absence of express statutory prohibitions, courts sometimes find contractual provisions to be unenforceable per se when they contradict sufficiently strong policies clearly inherent in the statute.⁴⁵ Thus, when federal legislation forms the basis for the public policy at issue, a finding of unenforceability per se of contract terms under the federal legislation is equivalent to a finding that the contract terms are preempted by the federal law.

Often, however, in the absence of explicit statutory language proscribing certain types of contractual agreements, courts will adopt a standard for enforceability known as the "rule of reason."⁴⁶ Under this standard, contractual agreements appearing to violate policies of the statute may still be enforceable as long as they are reasonable under the circumstances.⁴⁷ This approach is appropriate, for example, when the relevant policies of the federal legislation are sufficiently broad or abstract so that they do not carry preemptive force. In using the rule of reason standard, courts will typically balance the factors favoring enforcement of the agreement with the public policy factors

41. *Id.*

42. *Id.* at § 5.5. Courts may interpret contract terms to favor enforceability. *See id.* at § 51.

43. RESTATEMENT (SECOND) OF CONTRACTS § 178 (1981).

44. Distinctions between types of unenforceability arise in the context of restraint of trade, *id.* at § 186, or more recently in federal antitrust legislation. *See, e.g.,* Arnold, Aspelund, Brantley & Shurn, *An Overview of U.S. Antitrust and Misuse Law for Licensor and Licensees*, in 1 TECHNOLOGY LICENSING 43 (T. Arnold & T. Smegal eds. 1982); Note, *The Presumption of Economic Power for Patented and Copyrighted Products in Tying Arrangements*, 85 COLUM. L. REV. 1140 (1985).

45. E. FARNSWORTH, *supra* note 10, § 5.5.

46. *Id.* at § 5.2; RESTATEMENT (SECOND) OF CONTRACTS § 186 (1981). *See also supra* note 44.

47. E. FARNSWORTH, *supra* note 10, § 5.5; RESTATEMENT (SECOND) OF CONTRACTS § 178 (1981).

weighing against enforcement.⁴⁸ Factors such as the protection of the justified expectations of the parties and the protection of the parties against forfeiture can be considered as favoring enforcement.⁴⁹ Factors weighing against enforcement include the strength of the public policy involved and the likelihood that the refusal to enforce the agreement would further that policy.⁵⁰ For example, a court may decide to enforce an agreement that violates statutory policy unless it is convinced that a refusal to enforce would advance that policy and would not result in large forfeiture for the party seeking enforcement. Unlike unenforceability as a result of preemption, a finding of unenforceability under the rule of reason public policy approach is at the court's discretion.

Both the preemption and rule of reason public policy approaches may be useful in rendering unenforceable contract provisions governing uses of copyrighted works, as the next section indicates.

III. UNENFORCEABILITY OF CONTRACTS UNDER COPYRIGHT LAW

The two approaches to be used to find contractual provisions unenforceable under copyright law both require that the objectives, purposes, and policies inherent in federal copyright protection be exposed. Analogy with patent law helps in this exposition. Then, again through relevant comparison with patent law, the approaches are applied to find some limits on the ability of a copyright owner to enhance his or her exclusive rights in the work, through contract, beyond those granted by the copyright law.

A. Purposes and Policies of Copyright Law

Like the patent law, the major purpose of the copyright law is to benefit the public.⁵¹

The enactment of copyright legislation by Congress under the terms of the Constitution is . . . [based] upon the ground that the welfare of the public will be served and progress of science and useful arts will be promoted Not primarily for the benefit of the author, but primarily for the benefit of the public, such rights are given [T]he policy is believed to be for the benefit of the great body of people, in that it will stimulate writing and invention to give some bonus to authors and inventors.⁵²

48. See RESTATEMENT (SECOND) OF CONTRACTS § 178 (1981).

49. *Id.*

50. *Id.*

51. M. NIMMER, *supra* note 18, § 1.03. *But see* Note, *The California Resale Royalties Act as a Test Case for Preemption Under the 1976 Copyright Law*, 81 COLUM. L. REV. 1315, 1329 (1981), for a discussion of alternative views of the major purpose.

52. H.R. REP. NO. 2222, 60th Cong., 2d Sess. (1909); HOUSE COMMITTEE ON THE JUDICIARY, 87TH CONG., 1ST SESS., REPORT OF THE REGISTER OF COPYRIGHTS, COPYRIGHT LAW REVISION 5 (Comm. Print 1961).

Copyright law seeks to promote access to intellectual property, to foster and reward intellectual and artistic creation, and to allow material in the public domain to remain there.⁵³ It also contains a limited goal of disclosure.⁵⁴ However, the balance employed by the copyright system to simultaneously achieve these goals is somewhat different than that used in patent law.

The monopoly granted to the author under federal copyright law is simultaneously both broader and narrower than that granted to the inventor under federal patent law. It is broader, first of all, because the monopoly granted the author by the public is of longer duration.⁵⁵ Also, the monopoly extends to cover all works of authorship fixed in a tangible medium of expression, as long as they are original.⁵⁶ Works need not meet any particular standard of utility, novelty, or non-obviousness, as they must to receive patent protection.⁵⁷ The monopoly is also narrower because it protects against only certain uses or behaviors involving the work, primarily centered around copying or reproduction of the work.⁵⁸ It does not afford protection against independent creation, as does patent law.⁵⁹ Also, the set of exclusive rights granted to authors in section 106⁶⁰ is expressly limited by provisions in sections 107-118⁶¹ that reserve certain uses for the public, often depending on the nature of the work involved.⁶²

Although the major purposes of federal copyright law would seem to mirror those of federal patent law, the differing balance used to achieve those purposes under copyright law suggests that federal copyright law may contain some policies that differ from those contained within patent law. The very grant of monopoly rights undoubtedly provides close parallels between the two sets of policies. For example, both systems could be viewed as containing policies against

53. These goals are implied by the Act's structure and by analogy with federal patent law.

54. The Act contains a deposit requirement. 17 U.S.C. § 407 (1982).

55. The duration of the copyright is, in general, the life of the author and fifty years beyond the author's death. 17 U.S.C. § 302 (1982).

56. 17 U.S.C. § 102 (1982).

57. 35 U.S.C. §§ 101-03 (1976).

58. Compare 17 U.S.C. §§ 106-18 (1982) with the patent statute grant of "the right to exclude others from making, using or selling [an] invention." 35 U.S.C. § 154 (1976).

59. "One may infringe a patent by the innocent reproduction of the machine patented, but the law imposes no prohibition upon those who, without copying, independently arrive at the [work that has been] copyrighted." *Fred Fisher, Inc. v. Dillingham*, 298 F. 145, 147 (S.D.N.Y. 1924).

60. See *supra* note 3.

61. Sections 107-18 are termed "limitations on exclusive rights" and include, *inter alia*, fair use, library uses, and exceptions to performance rights for sound recordings.

62. For example, certain limitations apply only to pictorial, graphic, and sculptural works, 17 U.S.C. § 113 (1982), or to computer programs, 17 U.S.C. § 117 (1982).

extension of monopoly duration and against maintaining invalid monopolies. Both systems may require that contractual provisions violating these policies be unenforceable per se. But the more complex balancing scheme used by copyright law to determine short-term allocation of usage rights indicates that federal copyright law contains potentially strong policies regarding short-term public access and use that are absent from federal patent law. These policies could lead to application of both preemption (per se) and rule of reason standards for unenforceability of contract provisions.

Since the balance under copyright law results in a monopoly that is longer in duration and broader in its application to intellectual property than is the monopoly grant under patent law, the possibility would seem to be raised that the monopoly grant under copyright is even more susceptible to excess market power being concentrated in copyright owners than is the corresponding monopoly grant under federal law. Thus, copyright owners may potentially be in a greater position to extract contract provisions from users that severely restrict public access and use of protected works. But the market created by copyright law may not actually provide the copyright owner with much economic power because the grant of exclusive rights is much more limited than under patent law.⁶³ The actual economic effect of the monopoly created by copyright law would depend, for example, on the number of prospective purchasers in the market and the availability of close substitutes for the copyrighted work.⁶⁴ Contracts that attempt to enlarge the set of exclusive rights granted to the copyright owner, if not per se unenforceable, may be unenforceable if not reasonable in light of these market factors.

B. Preemption and Unenforceable Per Se Provisions

Some contract rights should be preempted and their resulting provisions found unenforceable per se as violative of clear policies inherent in federal copyright law. In some cases the unenforceability should result because of explicit language in the copyright statute governing either substance or form of contracts. In other cases, unenforceability should result because a policy embodied in the Act is so clear and specific that no contractual attempts to override it can be tolerated.

63. See *supra* note 58. Even patent monopolies may not carry much economic power. See F. SCHERER, *INDUSTRIAL MARKET STRUCTURE AND ECONOMIC PERFORMANCE* 440 (2d ed. 1980).

64. Market power depends, *inter alia*, on the size of the market, product differentiation, and consumer preferences. *E.g.*, Note, *supra* note 44, at 1150.

1. *Express Limitations on Contracts*

Perhaps the most clear statement on contractual freedom in the Act occurs in section 203(a),⁶⁵ which provides for termination of transfers of copyright by the author of a work. Authors cannot contractually agree to waive these termination rights.⁶⁶ Any contractual agreement to the contrary should be unenforceable per se under copyright law.

Another protective measure for authors is given in section 204(a),⁶⁷ which provides that a consensual transfer of copyright ownership is not valid unless in writing. A state law that would permit enforcement of oral agreements to transfer any of the exclusive rights granted by copyright should be preempted as conflicting with a copyright version of a statute of frauds.⁶⁸

Finally, the several provisions mandating compulsory licensing severely restrict the copyright owner's ability to contract freely for privately determined royalties.⁶⁹ State laws allowing copyright owners to "opt out" of compulsory licensing should be preempted.

2. *Policy Regarding Works Made for Hire*⁷⁰

The Act specifically provides that the employer for whom a work was prepared is considered the "author" for purposes of copyright.⁷¹ By written agreement, the employer may transfer the copyright ownership that this implicit agreement between creator and employer conveys to him or her.⁷² Thus, the "work made for hire" provisions

65. The termination right does not exist for works made for hire. 17 U.S.C. § 203(a) (1982).

66. "Termination of the grant may be effected notwithstanding any agreement to the contrary, including an agreement to make a will or to make any future grant." 17 U.S.C. § 203(a)(5) (1982).

67. The transfer must also be signed by the copyright owner or his or her duly authorized agent. 17 U.S.C. § 204(a) (1982).

68. See *Library Publications, Inc. v. Medical Economics Co.*, 548 F. Supp. 1231 (E.D. Pa. 1982). There is no provision requiring a writing for nonexclusive licenses, which, according to section 101, do not act to convey ownership of copyright. However, there is some incentive to obtain writings even for nonexclusive licenses, since only a written nonexclusive license can prevail over a conflicting transfer of ownership. 17 U.S.C. § 205(f) (1982). A state law requiring nonexclusive licenses to be in writing would arguably not conflict with the Act and should not be preempted.

69. 17 U.S.C. §§ 111, 115-16 (1982).

70. A "work made for hire" is defined in 17 U.S.C. § 101 (1982).

71. 17 U.S.C. § 201(b) (1982).

72. 17 U.S.C. § 201(b) (1982). Section 201(b) has been interpreted as an implied contract between the creator of the work and the employer specifying that the employer will be deemed to be "author." *Black v. Pizza Time Theatres, Inc.*, 1983 Copyright L. Dec. (CCH) ¶ 25,569 (N.D. Cal. 1983). Thus, if the employer fails to pay for the work as agreed, the employee can rescind the agreement and reclaim the entire bundle of rights that he or she had agreed to convey. *Id.*

expressly limit how authorship is to be determined. Parties may also not be able contractually to alter the status of the work so as to consider it other than a work made for hire.⁷³ To do so might result in extended duration of monopoly protection for works, or copyright protection being extended to works that would otherwise not receive it.⁷⁴ Thus, contracts purporting to alter the status of a work made for hire should be unenforceable per se because of the clear policy implicit in Congress' creation of this special category of work.

3. *Policy Against Extension of Copyright Duration*

Attempts to contractually extend the Act's grant of monopoly rights by requiring royalties to be paid for use after copyright expiration should be unenforceable per se as violative of the clear public policy against extending copyright duration. Here, as in patent law, the statutory terms can be viewed as quid pro quo for the grant of monopoly rights.

[A]ny attempted reservation or continuation . . . of the patent monopoly, after the patent expires, whatever the legal device employed, runs counter to the policy and purpose of the patent laws By the force of the patent laws . . . is the invention of a patent dedicated to the public upon its expiration [The patent laws] . . . do not contemplate that any one by contract or any form of private arrangement may withhold from the public the use of an invention for which the public had paid by its grant of monopoly⁷⁵

Thus, by analogy, the force of the copyright law itself prevents extension of the copyright monopoly in time. Regardless of the situation of the parties or the circumstances surrounding the agreement, an agreement to extend the duration of the copyright monopoly is unenforceable per se. State contract law that would allow enforcement of contract terms specifying indefinite or extended royalties should be preempted.⁷⁶ In *April Productions, Inc. v. G. Schirmer, Inc.*,⁷⁷ the highest court of New York State held that federal copyright law required royalties to end at the expiration of the copyright term if no earlier date was contractually indicated.⁷⁸ The court also indicated that an express provision purporting to extend royalties beyond expiration might be unenforceable per se under copyright law.⁷⁹

73. Nimmer agrees. M. NIMMER, *supra* note 18, § 5.03[A].

74. *Id.*

75. *Scott Paper Co. v. Marcalus Mfg. Co., Inc.*, 326 U.S. 249, 255-57 (1945).

76. *See Brulotte v. Thys Co.*, 379 U.S. 29 (1964), for an analogous holding under patent law.

77. 308 N.Y. 366, 126 N.E.2d 283 (1955).

78. No termination date for royalties was provided in the contract. *Id.* at 373, 126 N.E.2d at 287.

79. *Id.*

4. *Policy Against Maintenance of Invalid Copyrights*

Under federal patent law, the doctrine of licensee estoppel, which prevents a patent licensee from challenging the validity of the patent on which the license is based, is preempted. In *Lear, Inc. v. Adkins*,⁸⁰ the United States Supreme Court held that this doctrine must give way because of the important public interest in free access to ideas that are, or should be, part of the public domain. *Lear* held that a state-imposed contract term (i.e., an implied promise not to challenge the underlying patent's validity) could be preempted by federal patent law, perhaps as a result of the severe restriction of the public interest that might result from the state implying such a term in every patent license. However, *Lear* is often cited for a stronger holding.⁸¹ Noting the very strong public interest in rendering unpatentable ideas freely accessible to the public, the Court indicated that "[t]he parties' contract, however, is no more controlling on this issue than is the State's doctrine of estoppel, which is also rooted in contract principles."⁸² Therefore, the case is generally cited as holding that "no contest" or "no-challenge" clauses in patent licenses are unenforceable per se, or preempted, under federal patent law.⁸³

"No-contest" clauses in copyright licensing agreements should be considered unenforceable per se, by direct analogy with patent law. Since the balance achieved by copyright law reflects a strong interest in providing short-term public access to protected works, and complete access to works that specifically do not merit protection, it is important that invalid copyrights not be allowed to stand.

The *Lear* language indicating that "no-contest" clauses should be preempted has been challenged by many commentators who would favor a public policy approach based on a rule of reason.⁸⁴ These commentators argue that although such a clause may violate the policy against maintaining illegitimate patents, the clause could further two other important patent purposes: promotion of invention and disclosure to the public.⁸⁵ They also argue that most of the reasons for finding a patent to be invalid would not harm the public, and that others besides the licensee would have strong incentives to challenge the patent's validity. Thus, nonenforcement of a "no-contest" clause would not necessarily further the policy of returning unpatentable inven-

80. 395 U.S. 653 (1969).

81. See D. CHISUM, 4 PATENTS § 19.02[3] (1978 & Supp. 1988); Rooklidge, *Licensee Validity Challenges and the Obligation to Pay Accrued Royalties: Lear v. Adkins Revisited (part 3)*, 69 J. PAT. & TRADEMARK OFF. SOC'Y 63, 64-69 (1987).

82. *Lear, Inc. v. Adkins*, 395 U.S. 653, 673 (1969).

83. See *supra* note 81.

84. See, e.g., Meurer, *An Economic Analysis of Royalty Terms in Patent Licenses*, 16 INTELL. PROP. L. REV. 121 (1984); Rooklidge, *supra* note 81, at 84-88.

85. Rooklidge, *supra* note 81, at 84.

tions to the public.⁸⁶ Nonetheless, "no-contest" clauses are unenforceable per se under patent law, perhaps because of the clear policy that the public receive all new inventions at the earliest possible date.⁸⁷

Similarly, economic views of the copyright scheme may suggest that the public is not often harmed by allowing invalid copyrights to stand.⁸⁸ It is certainly the case that there is relatively little potential for invalid copyrights to exist, because the standards that must be met to qualify for copyright protection are so low.⁸⁹ Also, as with the patent law, it could be argued that the use of "no-contest" clauses actually furthers other policies of the Act.⁹⁰ The clear copyright policy favoring no protection for works that cannot meet even the low standards set by the Act suggests, however, that unprotectible works be restored to the public domain at the earliest possible time. As with patent law, this policy should not be overridden.

5. *Policy Favoring a Unified System of Protection*

Implicit in both federal patent and copyright law is Congress' perceived need for a dominant federal system of protection to cover intellectual property. This concern was stated as part of the preemption paradigm in *Kewanee*,⁹¹ where the United States Supreme Court indicated that alternative systems of protection offered by states will be preempted if they seriously threaten reliance on federal law. Additionally, common-law copyright protection for works copyrightable under the Act is clearly preempted.⁹² Thus, systems of contract devised by a state to enhance protection for particular types of copyrightable subject matter, or the copyright owners thereof, at the expense of the user or the public, should be preempted. For example, some states have enacted legislation specifically designed to protect developers of computer software. The legislation makes enforceable contract clauses that extend the copyright owner's rights under the Act, and that might not otherwise be enforceable under state contract law because of possible problems of contract formation or unconscionability.⁹³ Such state laws should be preempted because, in conflicting with the correct balance achieved by copyright law, they provide such

86. Meurer, *supra* note 84, at 135-57.

87. See *supra* text accompanying note 75.

88. This view was expressed by Judge Posner in *Saturday Evening Post Co. v. Rumbleseat Press, Inc.*, 816 F.2d 1191, 1198 (7th Cir. 1987). The court refused to adopt a per se unenforceability standard.

89. See *supra* note 57 and accompanying text.

90. *Saturday Evening Post Co. v. Rumbleseat Press, Inc.*, 816 F.2d 1191, 1200 (7th Cir. 1987).

91. *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 489 (1974).

92. See *supra* note 24.

93. See, e.g., *Vault Corp. v. Quaid Software Ltd.*, 655 F. Supp. 750 (E.D. La. 1987), *aff'd*, 847 F.2d 255 (5th Cir. 1988).

strong alternatives to copyright protection that the state laws could supplant the Act as the dominant source of protection for copyrightable works.⁹⁴ Even in the absence of such special state legislation, contracts otherwise enforceable under state law that happen to provide alternative protection schemes for copyrightable works should be unenforceable when their use is so pervasive in the relevant market so as to displace the dominant federal scheme.⁹⁵

C. Unenforceability of Other Contractual Extensions of Rights

Most contractual attempts to enlarge the set of monopoly rights granted to copyright owners would probably involve users' forfeiture of rights reserved or granted to them in sections 107-118 of the Act.⁹⁶ In other words, copyright owners would attempt to remove the Act's explicit limitations on their own exclusive rights by denying users the rights given to them. As illustration of these types of contractual provisions, the examples provided in the Introduction to this Comment are now examined in more detail.⁹⁷

1. *Contracts Attempting to Restrict "Fair Use"*

The earlier, hypothetical examples involving the publishing industry suggest contractual attempts to eliminate "fair use" rights, as granted to the public in section 107 of the Act.⁹⁸ Assuming that those contractual attempts would be otherwise enforceable as a matter of state contract law, should they be preempted and therefore adjudged unenforceable per se, under copyright law? Preemption is mandated when there is a clear, narrow purpose or objective that is frustrated sufficiently by the enforcement of such restrictive contract terms. A general tension with rather broad purposes or objectives of the Act would not mandate preemption, but would instead suggest that a rule of reason standard might be used to determine enforceability. Thus, the nature of the policy underlying the fair use provision of the Act must first be determined before a decision can be made as to whether a contract term restricting or eliminating fair use would be enforceable.

94. *Id.* See also, Hazen, *Contract Principles as a Guide for Protecting Intellectual Property Rights in Computer Software: The Limits of Copyright Protection, the Evolving Concept of Derivative Works, and the Proper Limits of Licensing Arrangements*, 20 U.C. DAVIS L. REV. 105, 152 (1986).

95. See Note, *The "Soft" Existing Legal Protection of Software and the Preemption of State Shrink-Wrap License Enforcement Acts*, 8 N. ILL. U.L. REV. 531, 562 (1988).

96. The "shrink-wrap license" is an example of recent efforts to accomplish this goal. See *infra* notes 101-15 and accompanying text.

97. See *supra* text accompanying notes 7-9.

98. "[T]he fair use of a copyrighted work, including such use by reproduction in copies or phonorecords or by any other means specified by [section 106], for purposes such as criticism, comment, news reporting, teaching . . . , scholarship, or research, is not an infringement of copyright." 17 U.S.C. § 107 (1982).

ble. A view of fair use as representing critical access needs of the public to expression, so that the Act does not impose too much on protected first amendment rights,⁹⁹ suggests that any contractual encroachment of fair use rights might deprive the user of necessary first amendment access to expression and should therefore be preempted. Thus, the contractual provisions would be unenforceable per se under the Act. A description of fair use as "the play in the joints of copyright that keeps the whole structure from intolerable rigidity"¹⁰⁰ intimates a degree of flexibility that might allow for contractual realignment of rights, at least in some circumstances. Thus, a rule of reason standard for determining unenforceability might be suggested.

2. *Shrink-Wrap Licenses and Computer Software*

Because the computer software industry perceives federal copyright protection as being inadequate to protect against unauthorized copying of computer programs,¹⁰¹ software developers use additional means to protect their software against unwanted copying. "Shrink-wrap licenses" provide one such means of additional protection for mass-marketed software.¹⁰² The contract terms are displayed beneath the clear plastic wrapper that surrounds the software package, so that they may easily be read before the wrapper is removed.¹⁰³ The purchaser is deemed to assent to the terms of the contract when he or she opens the software package.¹⁰⁴ The contract terms themselves typically restrict the user by prohibiting the making of copies of the computer program, the use of the program on more than one processor, the transfer of the copy of the program to another, and the decompilation or reverse engineering of the program to obtain an equivalent source code.¹⁰⁵ Assuming that there are no problems of contract formation, and that these licensing agreements would otherwise be enforceable under state contract law,¹⁰⁶ should they be enforceable under federal copyright law?

99. Cf. Denicola, *Copyright and Free Speech: Constitutional Limitations on the Protection of Expression*, 67 CALIF. L. REV. 283, 287-89 (1979).

100. Brown, *supra* note 4, at 1089.

101. See Hazen, *supra* note 94, *passim*; Note, *supra* note 95, at 531-32.

102. Another means would be provided by technology that defeated attempts to make copies of the software.

103. Maher, *The Shrink-Wrap License: Old Problems in a New Wrapper*, 34 J. COPYRIGHT SOC'Y 292 (1987).

104. *Id.* AT&T Information Systems, Inc. uses the language, "Once you have read this license agreement and agree to its terms, you may open the sealed envelope containing the program media. By opening the seal, you show your acceptance of the terms of this limited use software license agreement." AT&T-IS Limited Use Software License Agreement, *supra* note 9.

105. See *supra* text accompanying note 9.

106. Possible problems of contract formation, or unenforceability under state contract law, are discussed in Fischer, *supra* note 7, at 280-84.

Prohibitions against decompilation or reverse engineering provide far greater protection for protectible works than does the federal copyright law.¹⁰⁷ Even state trade secret law does not provide such extensive protection.¹⁰⁸ Contract provisions prohibiting or restricting reverse engineering conflict with the primary purpose of the Act since they attempt to deprive the public of access to software in a way that clashes with the careful balance drawn by the copyright law. The provisions attempt to provide patent-like protection for computer software when there is no requirement that the standards of patentability be met. Use of such provisions with each copy of software distributed to the public would allow a software developer to enforce the restrictions against all market consumers, thereby creating a monopoly more extensive than that given by copyright, and providing an attractive alternative to federal copyright protection. Thus, contract provisions prohibiting decompilation or reverse engineering of mass-marketed computer software should be preempted.¹⁰⁹

Prohibitions against transfer of the copy of computer software obtained in the original transaction provide potential conflict with the "first sale" doctrine, codified in section 109 of the Act.¹¹⁰ Additionally, prohibitions on the making of copies or adaptations of the software, and their subsequent transfer, may conflict with section 117, which specifically addresses users' rights in the computer program context.¹¹¹ The computer software industry attempts to bypass both section 109 and section 117 by calling the shrink-wrap contract a license, thus enabling the developer or distributor to retain title to the copy of the computer software itself.¹¹² If no "sale" has occurred, the industry may be able to limit or prohibit transfers or uses of the particular copy of software it has distributed.¹¹³ This control over disposition and use

107. See Jensen, *The Preemption of Shrink Wrap Licenses in the Wake of Vault Corp. v. Quaid Software Ltd.*, 8 *COMPUTER L.J.* 157, 167 (1988).

108. The recent case of *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 109 S. Ct. 971 (1989), makes this observation and discusses the dangers of allowing states to create patent-like rights.

109. See *supra* note 107.

110. "[T]he owner of a . . . copy . . . lawfully made under this title . . . is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy . . ." 17 U.S.C. § 109(a) (1982).

111. The rights in section 117 include the limited right to make copies or adaptations of the copy of the computer program, and the right to transfer exact copies without the authorization of the copyright owner. These rights exist for the owner of a copy of the computer program. 17 U.S.C. § 117 (1982).

112. Courts have examined whether transactions are "sales" or "licenses" in other contexts. See, e.g., *United States v. Wise*, 550 F.2d 1180, 1190-94 (9th Cir. 1977)(motion picture prints); *Henry Bill Publishing Co. v. Smythe*, 27 F. 914, 916 (C.C.S.D. Ohio 1886)(copies of books). Application of the first sale doctrine was at issue in both of the above cases.

113. *United States v. Wise*, 550 F.2d 1180 (9th Cir. 1977); *Henry Bill Publishing Co. v. Smythe*, 27 F. 914 (C.C.S.D. Ohio 1886).

may conflict with a major purpose or objective of the Act, since unlike federal patent law, federal copyright law does not give the copyright owner the right to prohibit others from using the copyrighted work.¹¹⁴ If sections 109 and 117 play a critical role in limiting the copyright owner's control of copies of the computer program just to that deemed necessary to protect his or her exclusive right to first distribution, copyright owners may be prohibited from using contract terms to determine whether a first sale has occurred.¹¹⁵ If sections 109 and 117 play a somewhat broader and less essential role to maintaining the copyright balance, then conditions on disposition or use, or attempts to maintain ownership of particular copies themselves, may be enforceable if reasonable under the circumstances.

IV. CONCLUSION

Thorough analysis of federal preemption and public policy approaches to unenforceability of contracts or their provisions suggests that both of these methods can be useful in limiting a copyright owner's ability to contractually alter the scheme of protection offered by the Act. Where the purposes or policies of the Act are sufficiently clear, conflicting contractual provisions should be found to be preempted, or unenforceable per se, as mandated by the Act itself. For other policies contained within the Act, where preemption is not mandated, a public policy approach should be used to declare contract provisions unenforceable when they are not reasonable under the circumstances. Both approaches require that the courts first determine the nature of the disparate policies embodied in the Act. In particular, when the exceptions in sections 107 through 118 are implicated in the contract in question, the court must determine the role that the exceptions play in maintaining the carefully drawn copyright balance. The more essential the particular exception appears to be to the balance, the more likely the exception is associated with a major purpose or policy of the Act, and the more likely that the exception mandates preemption of contract terms with which it is in conflict.

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114. *See supra* note 58.

115. *See* 2 M. NIMMER, NIMMER ON COPYRIGHT § 8.12 (rev. ed. 1987).